

MINUTES

BOARD OF DIRECTORS MEETING OF THE SAN DIEGO & ARIZONA EASTERN RAILWAY COMPANY

January 18, 2011

A meeting of the Board of Directors of the San Diego & Arizona Eastern (SD&AE) Railway Company, a Nevada corporation, was held at 1255 Imperial Avenue, Suite 1000, San Diego, California 92101, on January 18, 2011, at 9:02 a.m.

The following persons, constituting the Board of Directors, were present: Don Seil and Paul Jablonski. (Bob Jones was out ill.) Also in attendance were:

MTS staff:

SD&IV staff:

Pacific Southwest Railway Museum:

Carrizo Gorge Railway, Inc. (Carrizo):

Burlington Northern Santa Fe (BNSF):

International Border Rail Institute:

Karen Landers, Tim Allison, Wayne Terry,
Linda Musengo

Matt Domen

Diana Hyatt

Armando Freire

John Hogemeier

Richard Borstadt

1. Approval of Minutes

Mr. Jablonski moved to approve the Minutes of the October 19, 2010, SD&AE Railway Board of Directors meeting. Mr. Seil seconded the motion, and it was unanimously approved.

2. Statement of Railway Finances

Linda Musengo reviewed the financial statement for the 4th quarter of 2010 (attached to the agenda item). Ms. Musengo noted that the lease income is down from last year because a lot of leases were converted to annual payments, which were collected in the second quarter last year and not amortized and correctly accounted for until the third quarter. Ms. Musengo added that she expects that the third quarter numbers will be more comparable. Tim Allison confirmed for Mr. Jablonski that lease income is actually increasing overall.

Mr. Allison also clarified for Mr. Jablonski that several billboard leases were modified, and there were decreases in construction and municipal-type projects through utility companies or the cities, which reduced the number of right of entry permits.

Action Taken

Mr. Seil moved to receive the report for information. Mr. Jablonski seconded the motion, and it was unanimously approved.

3. Report on SD&IV Operations

Matt Domen reviewed the report of activities for the 4th quarter of 2010 (attached to the agenda item). In response to Mr. Jablonski, Mr. Domen stated that he is optimistic about business in 2011. He reported that there have been meetings recently to look at future business into

Mexico. Armando Freire also responded to Mr. Jablonski's question regarding potential northbound business for Carrizo stating that discussions are underway regarding moving gas from Ensenada in addition to other possible new business.

Mr. Domen reported that the new GenSet locomotives purchased with the 2009 grant funding are working great. He stated that there has been a 30% improvement in fuel savings, the locomotives are quiet, clean, and dependable, and the crews love them. He added that there have been no failures on the main line.

Mr. Jablonski asked about delays caused by the Blue Line Project overhead wire work on the weekends. Mr. Domen responded that there have been several delays and some have extended past the originally scheduled times. He explained that trains are running about 5 to 9 miles a night against current traffic resulting in anywhere from 7 to 14 road crossings where trains have to stop and drop the gates; this affects the staging areas, and over time, large costs are incurred. Mr. Domen added that last Sunday night, the northbound Blue Line trip was not operated due to expanded contractor activity. Palomar Siding (a big customer) was unable to get onto the line at all (and may not be able to get on until Thursday). He added that business is halted sometimes for 2 to 3 days at a time. Per Mr. Jablonski's suggestion, SD&IV and SDTI staffs will meet to discuss resolving the issues—Wayne Terry will follow up.

Action Taken

Mr. Jablonski moved to receive the report for information. Mr. Seil seconded the motion, and it was unanimously approved.

4. Report on Pacific Southwest Railway Museum Operations

Diana Hyatt reviewed the 4th quarter of 2010 report (attached to the agenda item). Ms. Hyatt stated that "The Christmas Train" delivered gifts to children in Tecate, which was coordinated by Margaret Coval; however, the Museum was not able to provide a train this year. Ms. Hyatt also announced that Roger Chalberg passed away.

Mr. Allison reminded the operators that if contractors are hired to work on SD&AE property, they must have a right of entry permit to cover indemnity and insurance.

Action Taken

Mr. Jablonski moved to receive the report for information. Mr. Seil seconded the motion, and it was unanimously approved.

5. Report on the Desert Line

Armando Freire reported that there have been no operations on the Desert Line. He stated that the sand belt in Campo Depot was removed by its owner, Superior Ready Mix, and the tracks were restored.

Mr. Freire reported that Carrizo's recent issues have been resolved, and business is back on track. He has been working with Ms. Hyatt on maintenance, dispatch, and weed abatement, and they will continue to work together on upcoming projects.

Mr. Freire stated that Carrizo can now concentrate on increasing business. He discussed potential business and is hopeful that it will improve significantly during 2011.

Mr. Freire informed the Board that Carrizo has been running all-day Saturday trains between Tijuana and Tecate to show that the trains are operational and to encourage business.

In regard to progress on Tunnel 3 on the Desert Line, Mr. Freire stated that Mexico has stated that it will put \$70 million into redoing the whole line, which would include Tunnel 3, and Carrizo is waiting on further action regarding that project. Mr. Jablonski requested an update at the next meeting regarding a business plan for restoring operations on the Desert Line. Mr. Freire responded that he has a business proposal, but the fact is that money is the issue. (An update will be given at the next meeting.) Mr. Freire added that he has been working to build business south of the border.

Action Taken

Mr. Jablonski moved to receive the report for information. Mr. Seil seconded the motion, and it was unanimously approved.

6. Real Property Matters

a. Summary of SD&AE Documents Issued Since October 19, 2010

Mr. Allison reported that the documents issued since October 19, 2010 (described below), have been processed by staff.

- S200-10-432: Easement to the City of San Diego for a sewer pipeline at 54th Street in the City of San Diego.
- S200-10-461: Right of Entry Permit to American Asphalt South, Inc. for a construction lay-down yard at the Baltimore Wye in the City of La Mesa.
- S200-11-462: Right of Entry Permit to Diamond Environmental Services to construct a temporary fence at the Baltimore Wye in the City of La Mesa.
- S200-11-464: Right of Entry Permit to Nasland Engineering for field surveying north of Coronado Avenue in the City of San Diego.
- S200-11-465: Easement to San Diego Gas and Electric for overhead electrical lines west of Plaster City in Imperial County.
- S200-11-466: Easement to San Diego Gas and Electric for overhead electrical lines west of Ocotillo in Imperial County.
- S200-11-467: Easement to San Diego Gas and Electric for overhead electrical lines east of Jacumba in San Diego County.
- S200-11-468: Right of Entry Permit to Ninyo and Moore, Inc. for geotechnical studies along the Orange line in the cities of San Diego, Lemon Grove, and La Mesa.

- S200-11-471: Right of Entry Permit to Hugo Alonso Inc. for building construction in San Ysidro.

Action Taken

Mr. Jablonski moved to receive the report for information. Mr. Seil seconded the motion, and it was unanimously approved.

b. Easement with SDG&E for At-Grade and Underground Utility Crossings

Mr. Allison explained that SDG&E is building a substation in Chula Vista. The SD&AE Board previously approved a number of licenses for this project to move forward. SDG&E is now requesting nonrevocable easements based on California Public Utilities Commission requirements.

In response to Mr. Jablonski's question as to why one access point is not enough, Mr. Allison stated that SDG&E needs an emergency access. He clarified that the crossing would be built out by SDG&E to SD&AE and American Railway Engineering Maintenance-of-Way Association standards.

Action Taken

Mr. Jablonski moved to approve issuing easements to San Diego Gas and Electric (SDG&E) for at-grade and underground utility crossings over SDG&E tracks located south of L Street in Chula Vista on the Coronado Branch Line. Mr. Seil seconded the motion, and it was unanimously approved.

c. Easements for At-Grade Crossings West of Jacumba

Mr. Allison explained that the U.S. Department of Homeland Security (DHS) is requesting permanent easements in Jacumba and Campo to access its border fence. Mr. Allison clarified that the cost for the easements would be market value (approximately \$2k).

In response to questions from the Board, Mr. Allison clarified that:

- any future activity requiring new gates, etc. would be the responsibility of DHS in addition to maintenance of the crossings;
- the easement would be exclusive to DHS;
- in addition to DHS, land owners also access the crossings; and
- access to others could be given in the future.

Board members added the following stipulations:

1. maximize revenue opportunities;
2. ensure maintenance responsibility and set clear costs; and
3. require timely reimbursement for any work completed.

Action Taken

Mr. Jablonski moved to approve issuing easements to the United States Department of Homeland Security (DHS) for at-grade crossings over SD&AE tracks located west of Jacumba in San Diego County. Mr. Seil seconded the motion, and it was unanimously approved.

7. Old Business

There was no old business.

8. New Business

There was no new business.

9. Public Comments

There were no public comments.

10. Next Meeting Date

The next meeting of the SD&AE Railway Company Board of Directors is on Tuesday, April 19, 2011, at 9:00 a.m.

11. Adjournment

The meeting was adjourned at 9:38 a.m.



President

Legal Counsel

JGardetto/
SDAE Minutes 1-18-11.doc

San Diego and Arizona Eastern Railway Company

April 19, 2011

Sign-in Sheet (VOLUNTARY)

Name	Company
1. Robert Jones	RailAmerica
2. Hector Valdez	FDA
3. Diana Hyatt	PSRM A
4. Richard Borstad	BORDER RAIL INSTITUTE
5. John Hoegemier	BNSF Railway
6. Joan Inlow	Pattern Energy
7. Sheila Lemire	CZRY Railway
8. Matt Roman	SDIC
9. Jorge O. Marras Sustán	ADMICARGA TIJ-TEC Railroad
10. Gaspar Metzler Ibáñez	ADMICARGA short Line Tijuana Tecate
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